MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

September 21, 1947

The third statutory meeting of the Federal Advisory Council for 1947 was convened in Room 932 of the Mayflower Hotel, Washington, D.C., on Sunday, September 21, 1947, at 2:00 P.M., the President, Mr. Brown, in the Chair.

Present:

Mr. Charles E. Spencer, Jr.	District No. 1
Mr. W. Randolph Burgess	District No. 2
Mr. David E. Williams	District No. 3
Mr. John H. McCoy	District No. 4
Mr. Robert V. Fleming	District No. 5
Mr. J. T. Brown	District No. 6
Mr. Edward E. Brown	District No. 7
Mr. James H. Penick	District No. 8
Mr. Henry E. Atwood	District No. 9
Mr. James M. Kemper	District No. 10
Mr. Ed H. Winton	District No. 11
Mr. Reno Odlin	District No. 12
Mr. Herbert V. Prochnow	Acting Secretary.

The Council considered a proposal that the Federal Reserve banks adopt a policy of purchasing all bills offered directly to them by commercial banks at a price to be determined daily, or at more or less frequent intervals.

There was a brief discussion of the ruling under which all Federal Reserve banks and branches are to reimburse their member banks for postage or other transportation costs on all cash items sent to Federal Reserve banks and branches, other than the bank with which the member bank carries its reserve account.

The Council discussed the new plan proposed by the Board of Governors as a basis for the designation of reserve cities.

There was a discussion of a suggestion which had been made by a banker in one of the districts to a member of the Council regarding a possible reduction in reserve requirements in the near future from the present 20-20-14 per cent level. The Council was unanimously opposed to the suggestion.

The Council considered the matter of official personnel and salaries in the various Federal Reserve banks as it affects the caliber of men in the various offices and the problem of keeping a high quality of personnel in the banks.

The Council also considered briefly the question of placing commercial banks on a more equal basis with mutual savings banks in subscribing to new Treasury issues.

The Council discussed Bill S. 408 and Bill S. 829.

The meeting adjourned at 6:15 P.M.

HERBERT V. PROCHNOW
Acting Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

September 22, 1947

At 10:00 A.M., the Federal Advisory Council reconvened in Room 932 of the Mayflower Hotel, Washington, D.C.

Present: Mr. Edward E. Brown, President; Mr. Charles E. Spencer, Jr., Vice President; Messrs. W. Randolph Burgess, David E. Williams, John H. McCoy, Robert V. Fleming, J. T. Brown, James H. Penick, Henry E. Atwood, James M. Kemper, Ed H. Winton, Reno Odlin, and Herbert V. Prochnow, Acting Secretary.

The Council reviewed its conclusions of the previous day regarding the various items on the agenda and delivered a memorandum including the items on the agenda with the conclusions reached by the Council, to the Secretary of the Board of Governors at 10:57 A.M. on September 22, 1947. The memorandum follows on pages 26, 27 and 28.

The meeting adjourned at 10:35 A.M.

HERBERT V. PROCHNOW
Acting Secretary.

MEMORANDUM TO THE BOARD OF GOVERNORS FROM THE FEDERAL ADVISORY COUNCIL RELATIVE TO THE AGENDA FOR THE JOINT MEETING ON SEPTEMBER 23, 1947

1. A proposal that the Federal Reserve Banks adopt a policy of purchasing all bills offered directly to them by commercial banks at a price to be determined daily, or at more or less frequent intervals.

   Although there may be some inconveniences in the present policy regarding Treasury bills, the Council is unanimously in favor of continuing with the present procedure at least until such time as the market has had more experience with it. In this general connection the Council understands that the Federal Reserve Bank of New York has requested the member banks of its district not to buy and sell Federal Reserve funds outside of the district. All banks in New York are not complying with the request and similar requests have not been made in other districts. The Council believes that this request is neither practical nor desirable, and it urges that the request be withdrawn. The Council is opposed to any action by the System which implies a policy that borrowings by member banks should be confined to Federal Reserve banks.

2. Discussion of the ruling under which all Federal Reserve banks and branches will reimburse their member banks for postage or other transportation costs on all cash items sent to Federal Reserve banks and branches other than the bank with which the member bank carries its reserve account.

   The majority of the members of the Council believe that this matter is not one of significance. The omission of any discussion of the subject with the Council was in all probability an oversight. However, in view of the importance of correspondent banking relationships to the banking system, the Council believes that it would be advantageous in the future for the Board, before taking action, to discuss with the Council matters which might affect correspondent bank relationships. A minority of the Council believes that the practice by the Federal Reserve banks of absorbing charges, even of this character, is objectionable.

3. The new plan proposed by the Board as a basis for the designation of reserve cities. Copies of this plan have been sent to each member of the Council by Merritt Sherman, Assistant Secretary of the Board of Governors.

   At the joint meeting of the Board and the Council on May 20, 1946, the Council outlined in general some of the factors which would require consideration in any proposal to reclassify reserve cities. The Council desires to restate the position it took at that time, together with additional factors that necessitate consideration in connection with the new proposal by the Board for the reclassification of reserve cities. The Council recognizes that the present system of designating reserve cities is not logical, but it believes that the new proposal of the Board for the designation of reserve cities is no more logical. The Council is of the opinion that the classification of reserve cities should depend on the character of the deposits in a city and, specifically, on such factors as the following: (a) the percentage of the demand deposits which represent correspondent bank balances; (b) the percentage of the demand deposits which are represented by out-of-town and widely spread business; (c) the total demand deposits which are held by the banks in a city; and (d) the general degree of stability of deposits in a city. The

Council believes it is impossible to develop a rigid formula that will apply fairly to all cities in all the Federal Reserve districts. Individual cities require individual consideration.

Cities which are now reserve cities and wish to remain reserve cities should be allowed to do so. Reserve cities that wish to drop the classification and have a small amount of correspondent bank and out-of-town business, as well as a relatively small total of deposits, should be allowed to give up the classification. Cities that wish to give up the classification but have a substantial volume of correspondent bank and out-of-town business, or a large total of deposits, should be required to retain the classification. Cities which are not now reserve cities but desire the classification should have their requests heard by the Board. Where a city not now a reserve city clearly should be classified as such, the Board should act on its own initiative but only after a hearing.

The Council sees no real merit or necessity in disturbing the situation now when so many other more pressing problems face the banking system and our economy today.

4. The possible reduction of Reserve requirements in the near future from the present 20-20-14 level.

   This item on the agenda did not originate in the Council, but was suggested by a banker in the district of one of the Council members. The Council is unanimously opposed to the suggestion.

5. The question of official personnel and salaries in the various Federal Reserve Banks as it affects the caliber of men in the various offices and the problem of keeping a high quality of personnel in the banks.

   The Council is greatly concerned as to the maintenance of the quality of management of the Federal Reserve banks. There seem to us signs of deterioration due to the loss of able men in top positions and difficulty in their replacement. The causes appear to lie partly in low compensation, not well adjusted to recent changes in cost of living and pay in comparable positions, and partly in the feeling by officers of the Federal Reserve banks that they do not have adequate responsibility and authority.

   We believe this is a situation requiring the cooperative action of the Federal Reserve Board and the Boards of the several Federal Reserve banks.

6. The question of placing commercial banks on a more equal basis with the mutual savings banks in subscribing to new Treasury issues.

   This question was placed on the agenda before the terms of the September financing were announced.

   The Council notes that in the last Treasury issue the savings and thrift departments of commercial banks were placed on the same basis as mutual savings banks in subscribing to new Treasury issues. The Council is gratified by the support given by the Board in the accomplishment of this objective.

7. The Chairman of the Board has indicated that he will be pleased to discuss with the Council any of the legislative items listed in his letter of August 6th to the Presidents of the Federal Reserve banks.

There are two of the legislative items regarding which the Council desires to convey its opinion as follows:

S. 408

(a) In its memorandum to the Board of Governors relative to the agenda for the joint meeting of the Board and the Council on March 11, 1947, the Council stated that a minority of the Council was opposed to Bill S. 408, even with the amendments the Council proposed. In the letter of the President of the Council accompanying the resolution on Bill S. 408, it was further stated: "The Council's support of Bill S. 408, with the amendments suggested, is given in the belief that some safety valve is desirable for emergency credit situations, and with the recommendation that the lending and guarantee powers of certain other government agencies, including the R.F.C., should be greatly curtailed, and in many instances should be terminated."

S. 829

(b) The Council desires to reaffirm its position on the Bank Holding Company bill and hopes the bill may be passed with only such minor modifications as will assure its passage.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

September 22, 1947

At 2:00 P.M., the Federal Advisory Council convened in the Board Room of the Federal Reserve Building, Washington, D.C., the President, Mr. Brown, in the Chair.

Present: Mr. Edward E. Brown, President; Mr. Charles E. Spencer, Jr., Vice President; Messrs. W. Randolph Burgess, David E. Williams, John H. McCoy, Robert V. Fleming, J. T. Brown, James H. Penick, Henry E. Atwood, James M. Kemper, Ed H. Winton, Reno Odlin, and Herbert V. Prochnow, Acting Secretary.

Dr. Woodlief Thomas, Director, Division of Research and Statistics of the Federal Reserve System, discussed the "Current Economic Situation."

The meeting adjourned at 3:30 P.M.

HERBERT V. PROCHNOW
Acting Secretary.

MINUTES OF JOINT CONFERENCE OF THE FEDERAL ADVISORY COUNCIL AND THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

September 23, 1947

At 10:40 A.M., a joint conference of the Federal Advisory Council and the Board of Governors of the Federal Reserve System was held in the Board Room of the Federal Reserve Building, Washington, D.C.

Present: Members of the Board of Governors of the Federal Reserve System: Chairman Marriner S. Eccles; Governors M. S. Szymczak, Ernest G. Draper, James K. Vardaman, Jr., Lawrence Clayton and S. R. Carpenter, Secretary of the Board of Governors.

Present: Members of the Federal Advisory Council: Mr. Edward E. Brown, President; Mr. Charles E. Spencer, Jr., Vice President; Messrs. W. Randolph Burgess, David E. Williams, John H. McCoy, Robert V. Fleming, J. T. Brown, James H. Penick, Henry E. Atwood, James M. Kemper, Ed H. Winton, Reno Odlin, and Herbert V. Prochnow, Acting Secretary.

A brief discussion took place regarding a proposal that the Federal Reserve banks adopt a policy of purchasing all bills offered directly to them by commercial banks at a price to be determined daily or at more or less frequent intervals.

The President of the Council stated that although there may be some inconveniences in the present policy regarding Treasury bills, the Council is unanimously in favor of continuing with the present procedure at least until such time as the market has had more experience with it. The President of the Council also reported that the Council understood the Federal Reserve bank of New York had requested the member banks of its district not to buy and sell Federal Reserve funds outside of the district. The Council believes that this request is neither practical nor desirable and it urged that the request be withdrawn.

The President of the Council also stated that the Council was opposed to any action by the system which implies a policy that borrowings by member banks should be confined to Federal Reserve banks.

Chairman Eccles stated that one of the reasons for not adopting the proposal regarding the purchase of Treasury bills was that it tended to make credit more easily available, and in an inflationary situation this should not be done.

In connection with the position of the Federal Reserve Bank of New York regarding the purchase and sale of Federal Reserve funds outside of the district, Chairman Eccles said that this is a matter for the Open Market Committee and the Federal Reserve System as a whole and not the prerogative of a single Federal Reserve bank. The Chairman stated there is nothing to prevent the banks from purchasing and selling Federal Reserve funds between districts.

There was a discussion of the ruling under which all Federal Reserve banks and branches are to reimburse their member banks for postage or other transportation costs on all cash items sent to Federal Reserve banks and branches, other than the bank with which the member bank carries its reserve account.

The President of the Council stated that the majority of the members of the Council believe this matter is not one of significance. However, in view of the importance of correspondent relationships to the banking system, the Council believes it would be advantageous in the future for the Board, before taking action, to discuss with the Council matters which might affect correspondent bank relationships. President Brown reported that a minority of the Council believes that the practice by Federal Reserve banks of absorbing charges even of this character is objectionable.

Chairman Eccles reported that this idea did not originate with the Board, and the Board did not take it up with the Council as it did not occur to the Board that the subject was that important; moreover, the Board did not believe it was a subject of a policy nature.

There was a lengthy discussion relative to the new plan proposed by the Board as the basis for the designation of reserve cities. The President of the Council stated that the Council believes it is impossible to develop a rigid formula that would apply fairly to all cities in all Federal Reserve districts. The Council sees no real merit or necessity in disturbing the situation now when so many more pressing problems face the banking system and our economy today. The President of the Council requested that the records show the Council's objections to the formula proposed by the Board and also that the Council sees no need for action now. (See pages 26 and 27 of these minutes for a statement of the Council's position as presented by President Brown.)

Chairman Eccles stated that the matter of the classification of reserve cities would eventually have to be considered by Congress.

There was a brief discussion regarding the suggestions presented by a banker in one of the districts to a member of the Council relative to a possible reduction in reserve requirements in the near future from the present 20-20-14 per cent level. President Brown reported that the Council was unanimous in its objection to the proposal. Chairman Eccles stated that the Board agrees with the Council in its conclusions on this item.

There was a lengthy discussion regarding the question of the official personnel and salaries in the various Federal Reserve banks as it affects the caliber of men in the various offices and the problem of keeping a high quality of personnel in the banks. President Brown stated that the Council is greatly concerned as to the maintenance of the quality of management of the Federal Reserve banks and that the Council believes this situation requires the cooperative action of the Federal Reserve Board and the boards of the several Federal Reserve banks. Chairman Eccles said that the authority for the operation of the Federal Reserve System rests in the Board and in the Open Market Committee; if there is to be any change, it would have to be up to Congress.

There was a brief discussion regarding the question of placing commercial banks on a more equal basis with the mutual savings banks in subscribing to new Treasury issues.

The President of the Council stated that it was probably an oversight in the hearings on Bill S. 408 that no attention was called to the fact that a minority of the Council was against the bill. President Brown also said the Council was disappointed that the powers of the R.F.C. were not greatly curtailed and called attention to the letter of the President of the Council accompanying its resolution on Bill S. 408 indicating the conditions under which support of the bill was given. This letter stated that "The Council's support of Bill S. 408, with the amendments suggested, is given in the belief that some safety valve is desirable for emergency credit situations, and with the recommendation that the lending and guarantee powers of certain other government agencies, including the R.F.C., should be greatly curtailed, and in many instances should be terminated."

The President of the Council also reported that the Council desires to reaffirm its position on the bank holding company bill and hopes the bill may be passed with only such minor modifications as will assure its passage.

The meeting adjourned at 1:25 P.M.

HERBERT V. PROCHNOW
Acting Secretary.

NOTE: This transcript of the Acting Secretary's notes is not to be regarded as complete or necessarily entirely accurate. The transcript should be considered as being strictly for the sole use of the members of the Federal Advisory Council.

H. V. P.

The Acting Secretary's notes on the meeting of the Federal Advisory Council on September 21, 1947, at 2:00 P.M., in Room 932 of The Mayflower Hotel, Washington, D. C.

All members of the Federal Advisory Council were present.

A PROPOSAL THAT THE FEDERAL RESERVE BANKS ADOPT A POLICY OF PURCHASING ALL BILLS OFFERED DIRECTLY TO THEM BY COMMERCIAL BANKS AT A PRICE TO BE DETERMINED DAILY, OR AT MORE OR LESS FREQUENT INTERVALS.

E. E. Brown states that he would also like to add to the discussion on this subject the suggestion that the Open Market Committee make bills of all maturities available as long as they have them. He asks Spencer to comment on this item.

Spencer. The proposal that the Federal Reserve banks adopt a policy of purchasing all bills offered directly to them by commercial banks, at a price to be determined daily or at more or less frequent intervals, would enable banks to use their balances to the utmost. If a bill market is desirable, it should be established by the Federal Reserve banks.

Burgess doubts whether it would be a good thing to adopt the proposal. He states that the Council and other groups of bankers have at various times suggested to the Board of Governors that steps be taken to firm interest rates. The Council suggested eliminating puts and calls on bills. Now that this has been done, we are proposing to reverse our policy and make it easier for banks to get money. To adopt this proposal means essentially that we are making bills a part of our reserves.

Spencer comments that banks can still rediscount.

Burgess states that nevertheless this proposal would tend to make the banks' position somewhat easier, whereas the Council has wanted to tighten the money market. This suggestion would tend to set the Treasury back in its program. In this general connection, the Federal Reserve Bank of New York has requested its member banks not to buy or sell reserve funds outside of its district.

E. E. Brown asks why the Federal Reserve System apparently wishes to abolish the interdistrict purchase and sale of Federal Reserve funds. He says that originally the Federal Reserve System felt that the interdistrict purchase and sale of Federal Reserve funds tended to level out the money markets over the United States.

Burgess believes there is a better argument in connection with the matter of the Federal Reserve funds than there is in the proposal regarding the bills.

Spencer questions whether there is any fundamental difference between rediscounting and puts and calls.

Burgess states that when a bank must rediscount, it ordinarily wishes to pay back the Federal Reserve bank as soon as possible. The bill arrangement was an easy money mechanism to help finance the war.

E. E. Brown. If a bank does not know what the rate is going to be, there is going to be some restraint.

Burgess believes there is a veryslight difference.

Williams states that he expected to support the proposal Spencer had made but believes now that it is advisable to support Burgess' views.

E. E. Brown reports that it is important for banks in Illinois and for banks in one to two other communities to know that they can get bills to take care of tax situations at certain dates.

Burgess. In the old days, banks bought the maturities they wanted ahead of time. He believes it is difficult to have the rule and also to have exceptions.

E. E. Brown states that Rouse has assured the Chicago banks that the Open Market Committee will assist them in connection with their specific situation. Brown believes that the purchase and sale of Federal Reserve funds across Federal Reserve districts is desirable.

Burgess agrees, but states that if you do not have a flow of funds across districts some banks will have to borrow and this will tend to tighten the money markets. Burgess says that the policy of the New York Federal Reserve Bank has apparently not been adopted in other districts. He thinks the Council should suggest that the Federal Reserve System have a common policy.

E. E. Brown reports that some banks in New York have bought and sold Federal Reserve funds.

McCoy believes a bank should have a choice of whether it wants to borrow from another bank instead of the Federal Reserve bank in its district.

Burgess. The Board undoubtedly thinks it can firm the money markets better by having banks go to the Federal Reserve banks instead of getting funds from other member banks.

E. E. Brown reports that he has heard Eccles state that interdistrict borrowing of Fed funds is desirable. Brown believes interdistrict borrowings is desirable. He does not believe that banks should be required to confine their borrowings to the Federal Reserve banks.

McCoy believes each individual bank should have the right to buy and sell Fed funds wherever it wishes.

Odlin thinks it is inconsistent to ask that the put and take be eliminated and to come back now and ask essentially to have it reinstated.

Williams favors interdistrict borrowing and favors Burgess' suggestion on bills as it would tend to firm the money markets.

Penick thinks it is not desirable to change the Council's position on the put and take. He favors interdistrict borrowing.

Kemper is against any restrictions on the purchase and sale of Fed funds. He is opposed to a daily quotation on bills by the Federal Reserve banks.

Atwood agrees with Kemper.

Winton thinks the Federal Reserve System is trying to take away the rights of banks. He is opposed to any restrictions on the purchase and sale of Fed funds, and he is also opposed to reinstating the put and take.

J. T. Brown states that he is opposed to restrictions on the purchase and sale of Fed funds, and he is inclined to agree with Burgess' viewpoint on the bills.

Fleming agrees with Burgess' position on the bill policy and is opposed to any restrictions on the movement of Fed funds.

E. E. Brown reports that the Council is unanimously opposed to any action by the System which implies a policy that borrowings by member banks should be confined to Federal Reserve banks. He states that he will also advise the Board of Governors that the Council believes the request which the Federal Reserve Bank of New York has made to its member banks on the purchase and sale of Fed funds is not practical nor desirable, and it should be withdrawn. The Council also is unanimously in favor of continuing with the present procedure regarding Treasury bills at least until such time as the market has had more experience with it.

Odlin asks whether there is actually very much to the argument that money rates will be firmed if banks are restricted in their purchase and sale of Fed funds and are compelled to go to their Federal Reserve banks.

Burgess replies that the effect on the money markets might be very small. However, he states that the Federal Reserve System does not deal simply in blacks and whites, but in grays.

DISCUSSION OF THE RULING UNDER WHICH ALL FEDERAL RESERVE BANKS WILL REIMBURSE THEIR MEMBER BANKS FOR POSTAGE OR OTHER TRANSPORTATION COSTS ON ALL CASH ITEMS SENT TO FEDERAL RESERVE BANKS AND BRANCHES OTHER THAN THE BANK WITH WHICH THE MEMBER BANK CARRIES ITS RESERVE ACCOUNT.

E. E. Brown asks Winton to comment on this item in view of the fact that a good deal of the criticism regarding it has apparently come from Texas.

Winton states that the criticism has not come from him but from others.

Fleming believes that the Board of Governors may have made this ruling in order to eliminate the necessity of working up items and then having to send them to other Federal Reserve banks.

Atwood thinks the objection is not so much to the ruling as it is to the way in which it was done. He reports that Peyton said the Federal Reserve banks thought they were doing the member banks a favor by this ruling.

Winton states that he does not believe this item amounts to a great deal. He does not believe there is very much to the objections.

Penick. If a bank sends items direct, it requires more work, and so there is actually no real saving to the bank.

E. E. Brown reports that in the Seventh Federal Reserve District, 53 banks were sending direct, and after seven weeks of operation of this rule, 3 banks are still sending direct. Only one bank in the United States has changed and is now sending direct. In the case of Brown's bank, there is a saving to the bank of about $20,000 to $25,000 annually on postage.

Burgess thinks that perhaps the Federal Reserve banks are making so much money they are doing this to pass a little of it back to the banks.

E. E. Brown believes it may also be due to the problems the Federal Reserve Banks have had with clerical help.

Odlin states that he is greatly relieved in connection with this matter. He had received protests from various groups.

Kemper believes this is a straw in the wind and that it is another step in the competition between the Federal Reserve banks and the correspondent bank system. The way the ruling has worked out, up to the present, it has fallen flat, but it is a step in the competition of the Federal Reserve banks against the correspondent banks.

Odlin does not believe the long range objective was against the correspondent bank system. The banks in his district are not against it. However, Odlin believes a step like this should be taken by the Board only after discussion with the Council.

J. T. Brown comments that postage is paid only on items sent to other Federal Reserve banks, and most banks have only a few such items.

Kemper remarks that this ruling has not worked out well, but he thinks the motive back of it was not good.

Fleming believes this is a small matter, but he thinks the Council should have been informed, as the Board may some time have a matter of real significance and fail to inform the Council.

Winton thinks the Council should protest strongly on the way the matter was handled.

McCoy believes it is a matter of small importance and is only an operating problem.

J. T. Brown reports that this ruling was suggested by the Federal Reserve bank presidents and was largely an operating problem. In view of the fact that the Board did not discuss it with the Council, the Board was not assured of the Council's support.

Burgess believes the Board might be informed that the majority of the Council sees no objection to the ruling, but in view of the importance of correspondent bank relationships to the banking system, the Council should be consulted in advance on matters which might affect correspondent banking.

E. E. Brown. The majority of the Council feels that this matter is not one of importance. The failure of the Board to discuss this ruling with the Council may have been an oversight. However, in view of the importance of correspondent banking relationships to the banking system, the Council believes that it would be advantageous in the future for the Board, before taking action, to discuss with the Council matters which affect correspondent bank relationships.

The minority of the Council believes that the practice by the Federal Reserve banks of absorbing charges, even of this character, is objectionable.

THE NEW PLAN PROPOSED BY THE BOARD AS A BASIS FOR THE DESIGNATION OF RESERVE CITIES. COPIES OF THIS PLAN HAVE BEEN SENT TO EACH MEMBER OF THE COUNCIL BY MERRITT SHERMAN, ASSISTANT SECRETARY OF THE BOARD OF GOVERNORS.

E. E. Brown. The reason banks in some cities have not commented on this proposal of the Board is that the banks probably have not heard about it. Brown reports that Young of the Federal Reserve Bank of Chicago has just written the banks of the Seventh District yesterday informing the banks of the proposal. Brown believes that if all banks of the city wish to remain as a reserve city, they should have the privilege. If the banks in the city are divided, then a study of the situation should be made. In a general way this formula does take care of some cities that ought to be reserve cities, but the formula has no basis in logic. Brown states that he has correspondence from Chattanooga objecting to the proposal.

Fleming believes that the formula is not sound, and he asks who is clamoring for the change.

Kemper agrees with E. E. Brown. He sees no reason why banks (for example, St. Joseph) should not be permitted to carry larger reserves if they wish.

Odlin states that unless there is some reason which is not apparent, he does not understand why the Board should be raising the question.

Kemper states that he does not believe Kansas City, Kansas, has received full information about the proposal.

Penick asks whether National City, Illinois, could be declared a part of the Metropolitan St. Louis District.

Odlin reads the following statement of E. E. Brown at the joint meeting of the Board and the Council on May 20, 1946:

"The Board of Governors has asked the Council to consider the question of the reclassification of reserve cities, based on a proposal that cities in which a Federal Reserve bank or branch is located are to be designated as the reserve cities. The Board has also asked the Council to work out a possible formula for the designation of reserve cities. The Council believes that the present system of designating reserve cities is probably not logical, but it believes that the proposal of the Board for the location of reserve cities is even less logical. The Council believes the classification of reserve cities should depend on the character of the deposits in a city and specifically (a) on the percentage of the demand deposits which represent correspondent bank balances and (b) on the percentage of the demand deposits which are represented by out-of-town business. The cities which are now reserve cities and wish to remain reserve cities should be allowed to do so. Reserve cities that wish to drop the classification and have a small amount of correspondent bank and out-of-town business should be allowed to give up the classification. Cities that wish to give up the classification but have a substantial volume of correspondent bank and out-of-town business should be required to retain the classification. Any effort to work out a formula would require a long period of study to have any merit. The Council has tried various formulas and it is difficult, if not impossible, to develop a rigid formula that will apply to all cities in all the Federal Reserve districts. The Council sees no real merit in disturbing the situation now when so many other more pressing problems face the banking system and our economy today. Brown states that the Board must appreciate now the great concern which many banks have shown regarding the Board's proposal. The Board's idea of classifying reserve cities would actually add to the reserves instead of tightening reserves. The Board with the assistance of the Federal Reserve banks should have no difficulty in working out the problem of classification where it may exist in one or two cities".

E. E. Brown notes that all members of the Council favor the summary on this matter which was given the Board on May 20, 1946.

Burgess says there is no good reason for stirring up the matter now.

Fleming agrees.

E. E. Brown states that the formula is not logical, and it is unwise to disturb the situation now.

Fleming thinks the Board and the Council should know the attitude of the cities whose classification is terminated.

Burgess states that basing the classification solely on interbank balances is not logical. It may be desirable to add some cities to the reserve city classification, but removing any city requires serious consideration.

Winton believes that any city which desires to remain a reserve city should be permitted to retain its classification.

Odlin thinks the Council should definitely disapprove the proposal.

Fleming says the proposal is not sound when it leaves out cities like Newark with deposits of $772 million, and Providence with $597 million. A different basis of classification than that proposed is necessary in order for it to be sound.

E. E. Brown. If the majority of the banks in a city desire to terminate the classification of the city, the Board should analyze the situation and determine whether the deposits are largely local or out-of-town.

J. T. Brown. The amount and character of all deposits should be considered, not merely the interbank deposits.

Fleming states the formula should not cover solely interbank deposits. The reserve requirements are for the protection of all deposits.

Burgess suggests adding to the May 20, 1946, summary a point relative to the total demand deposits which are held by banks in a city.

J. T. Brown states that the Board itself might use its formula to require cities to stay in that want to terminate their classification.

Burgess believes cities that are not now reserve cities but desire the classification should have their requests heard by the Board. Certain cities with large deposits should have an opportunity to obtain the classification, if they desire it.

Atwood. If a city should be a reserve city (whatever the requirements are for a reserve city), it should be made one.

Odlin believes the Council should definitely state that the proposal of the Board should not be made effective.

Burgess. No formula can be evolved that will apply in all cases. Cities have to be given individual consideration.

E. E. Brown agrees. He says that he will call the attention of the Board to the former statement of the Council on this matter, plus the idea that total demand deposits should be included in any consideration of this problem.

THE POSSIBLE REDUCTION OF RESERVE REQUIREMENTS IN THE NEAR FUTURE FROM THE PRESENT 20-20-14 LEVEL.

E. E. Brown asks Odlin to discuss this item.

Odlin states that he was asked to present this matter by a banker in his district, and it is not his proposal. The banker who proposed it believes that reserve cities and central reserve cities should not have the same reserve requirements. This banker recognizes that lowering the reserve requirements might be somewhat inflationary, but banks will make all the loans they possibly can anyway.

E. E. Brown thinks it would be unwise to reduce reserve requirements now. Any reduction in reserve requirements would be wholly illogical.

Kemper agrees.

E. E. Brown notes that all members of the Council are opposed to the suggestion that reserve requirements be reduced in the near future.

THE QUESTION OF OFFICIAL PERSONNEL AND SALARIES IN THE VARIOUS FEDERAL RESERVE BANKS AS IT AFFECTS THE CALIBER OF MEN IN THE VARIOUS OFFICES AND THE PROBLEM OF KEEPING A HIGH QUALITY OF PERSONNEL IN THE BANKS.

E. E. Brown asks Odlin to comment on this item.

Odlin states that this item was not suggested by him, but was proposed by a banker in his district. Odlin states that he is speaking on the matter from the standpoint of the San Francisco district. Odlin believes that the Board of Governors exercises such strong control over the personnel and salaries of the Federal Reserve bank in his district that it is difficult to hold good men. He believes there should be more authority in the local Federal Reserve banks.

Fleming. The law gives the Board the authority.

Odlin replies that a great deal depends on its administration.

Fleming comments that Congress is recognizing in its own case that salaries should be raised.

E. E. Brown states that Eccles has worked in various ways to centralize authority in the Board and to lessen the authority of the boards of the various Federal Reserve banks.

Burgess says that the New York Federal Reserve bank has had personnel problems in the past but less has been heard in the New York bank about this subject lately.

E. E. Brown comments that when the Federal Reserve Bank of Chicago wished to increase salaries in the Detroit Branch, it was necessary to get the Board's approval in advance.

Odlin. In San Francisco there have been unreasonable delays in taking care of salary situations. He states that placing salary and personnel problems on a perfunctory basis by the Board is ruining the Federal Reserve System.

Fleming questions whether this matter is within the province of the Council.

Burgess thinks it is within the Council's province. He thinks the Council should focus attention solely on the problem as it relates to the top personnel.

J. T. Brown comments that Eccles' salary of $15,000 is $3,000 less than a vice president, for example, of a Federal Reserve bank may get. This may influence Eccles' viewpoint on the whole matter.

Burgess says that the pensions are also too small and he believes the top is now around $8,000.

E. E. Brown states that in the matter of lessening the authority in the Federal Reserve banks the Council might object to the Chairman of the Board of Governors doing, by indirection, what he has no right to do by direction. To make this statement will start a long discussion with the Chairman of the Board. The Council might also state that the policies of the Federal Reserve Board in holding down salaries is detrimental to the System.

Odlin comments that this question relates to the whole idea of subjugating the directors and not simply salary problems.

Burgess thinks the Council may point out that it has noted a number of cases where the Federal Reserve System has lost able men.

Odlin says that the policy of infringing on the authority of the Federal Reserve banks is working to the detriment of the System.

E. E. Brown asks Burgess to prepare a statement on this matter for the Council.

THE QUESTION OF PLACING COMMERCIAL BANKS ON A MORE EQUAL BASIS WITH THE MUTUAL SAVINGS BANKS IN SUBSCRIBING TO NEW TREASURY ISSUES.

E. E. Brown asks Atwood to comment on this item.

Atwood states that this question was placed on the agenda before the terms of the September financing were announced. Atwood thinks that the Council may state that it notes that in the last Treasury issue the savings and thrift departments of commercial banks were placed on the same basis as mutual savings banks in subscribing to new treasury issues.

E. E. Brown believes the Board may have had some influence in this matter, and that if it did it might be desirable to express appreciation.

THE CHAIRMAN OF THE BOARD HAS INDICATED THAT HE WILL BE PLEASED TO DISCUSS WITH THE COUNCIL ANY OF THE LEGISLATIVE ITEMS LISTED IN HIS LETTER OF AUGUST 6TH TO THE PRESIDENTS OF THE FEDERAL RESERVE BANKS.

E. E. Brown states that there are two important legislative items in Eccles' letter: (1) bill S.408; and (2) bill S. 829. Brown believes that S.408 may be dead and that it might be best not to discuss it.

Burgess thinks it is probably dead. He points out that the life of the R. F. C. was extended on a basis that was too liberal.

Kemper thinks that the extension of the R. F. C. may have put a new face on it and may make S. 408 guarantees unnecessary. If this country needs a cesspool for marginal operators, he suggests that it be a separate cesspool. He thinks the Council should come out against S. 408, in view of the extension of the life of the R. F. C.

Atwood believes that the Council should call attention to the fact that it did not give unanimous endorsement to bill S. 408.

E. E. Brown states that in its memorandum to the Board of Governors relative to the agenda for the joint meeting of the Board and the Council on March 11, 1947, the Council stated that a minority of the Council was opposed to bill S. 408, even with the amendments the Council proposed. The Council's support of bill S. 408, with the amendments it suggested, was given in the belief that some safety valve was desirable for emergency credit situations and with the recommendation that the lending and guarantee powers of certain other government agencies, including the R. F. C., should be greatly curtailed and in many instances should be terminated. Brown reports that the groups opposed to bill S. 829 are as follows: (1) Brown understands that Giannini may agree to separate Transamerica's outside interests but wishes to expand the banking interests. He also understands Giannini has threatened to line up political influence; (2) the Treasury has not testified, but the Comptroller's office, it is understood, is not satisfied with the authority given the Federal Reserve Board. The Treasury may oppose the bill unless it is changed to the satisfaction of the Treasury; (3) the savings banks believe the 15 per cent provision may be detrimental to them. Some change in language may be necessary; (4) the Morris Plan banks are also opposed.

Odlin believes Brown's analysis is correct. Brown asks whether there is any point in discussing bill S. 829 with the Board at present. Odlin thinks the Council should reaffirm its position on the bank holding company bill and express the hope that the bill will be passed with only such minor modifications as will assure its passage.

The meeting adjourned at 6:15 P.M.

The Council reconvened at 10:00 A.M.
on September 22, 1947, in Room 932 of
the Mayflower Hotel, Washington, D. C.

All members of the Council were present.

The Council approved the attached memorandum, which it prepared, to be sent to the Board of Governors relative to the agenda for the joint meeting of the Board and the Council on September 23, 1947. The memorandum was delivered to the Secretary of the Board of Governors at 10:57 A.M. on September 22, 1947. It will be noted that each item of the agenda is listed with the comments of the Council on the item.

The meeting adjourned at 10:35 A.M.

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS
FROM THE
FEDERAL ADVISORY COUNCIL
RELATIVE TO THE AGENDA FOR THE JOINT MEETING
ON SEPTEMBER 23, 1947

1. A proposal that the Federal Reserve Banks adopt a policy of purchasing all bills offered directly to them by commercial banks at a price to be determined daily, or at more or less frequent intervals.

   Although there may be some inconveniences in the present policy regarding Treasury bills, the Council is unanimously in favor of continuing with the present procedure at least until such time as the market has had more experience with it.

   In this general connection the Council understands that the Federal Reserve Bank of New York has requested the member banks of its district not to buy and sell Federal Reserve funds outside of the district. All banks in New York are not complying with the request and similar requests have not been made in other districts. The Council believes that this request is neither practical nor desirable, and it urges that the request be withdrawn. The Council is opposed to any action by the System which implies a policy that borrowings by member banks should be confined to Federal Reserve banks.

2. Discussion of the ruling under which all Federal Reserve banks and branches will reimburse their member banks for postage or other transportation costs on all cash items sent to Federal Reserve banks and branches other than the bank with which the member bank carries its reserve account.

   The majority of the members of the Council believe that this matter is not one of significance. The omission of any discussion of the subject with the Council was in all probability an oversight. However, in view of the importance of correspondent banking relationships to the banking system, the Council believes that it would be advantageous in the future for the Board, before taking action, to discuss with the Council matters which might affect correspondent bank relationships. A minority of the Council believes that the practice by the Federal Reserve banks of absorbing charges, even of this character, is objectionable.

3. The new plan proposed by the Board as a basis for the designation of reserve cities. Copies of this plan have been sent to each member of the Council by Merritt Sherman, Assistant Secretary of the Board of Governors.

At the joint meeting of the Board and the Council on May 20, 1946, the Council outlined in general some of the factors which would require consideration in any proposal to reclassify reserve cities. The Council desires to restate the position it took at that time, together with additional factors that necessitate consideration in connection with the new proposal by the Board for the reclassification of reserve cities. The Council recognizes that the present system of designating reserve cities is not logical, but it believes that the new proposal of the Board for the designation of reserve cities is no more logical. The Council is of the opinion that the classification of reserve cities should depend on the character of the deposits in a city and, specifically, on such factors as the following: (a) the percentage of the demand deposits which represent correspondent bank balances; (b) the percentage of the demand deposits which are represented by out-of-town and widely spread business; (c) the total demand deposits which are held by the banks in a city; and (d) the general degree of stability of deposits in a city. The Council believes it is impossible to develop a rigid formula that will apply fairly to all cities in all the Federal Reserve districts. Individual cities require individual consideration.

Cities which are now reserve cities and wish to remain reserve cities should be allowed to do so. Reserve cities that wish to drop the classification and have a small amount of correspondent bank and out-of-town business, as well as a relatively small total of deposits, should be allowed to give up the classification. Cities that wish to give up the classification but have a substantial volume of correspondent bank and out-of-town business, or a large total of deposits, should be required to retain the classification. Cities which are not now reserve cities but desire the classification should have their requests heard by the Board. Where a city not now a reserve city clearly should be classified as such, the Board should act on its own initiative but only after a hearing.

The Council sees no real merit or necessity in disturbing the situation now when so many other more pressing problems face the banking system and our economy today.

4. The possible reduction of Reserve requirements in the near future from the present 20-20-14 level.

This item on the agenda did not originate in the Council, but was suggested by a banker in the district of one of the Council members. The Council is unanimously opposed to the suggestion.

5. The question of official personnel and salaries in the various Federal Reserve Banks as it affects the caliber of men in the various offices and the problem of keeping a high quality of personnel in the banks.

The Council is greatly concerned as to the maintenance of the quality of management of the Federal Reserve banks. There seem to us signs of deterioration due to the loss of able men in top positions and difficulty in their replacement. The causes appear to lie partly in low compensation, not well adjusted to recent changes in cost of living and pay in comparable positions, and partly in the feeling by officers of the Federal Reserve banks that they do not have adequate responsibility and authority.

We believe this is a situation requiring the cooperative action of the Federal Reserve Board and the Boards of the several Federal Reserve banks.

6. The question of placing commercial banks on a more equal basis with the mutual savings bank in subscribing to new Treasury issues.

This question was placed on the agenda before the terms of the September financing were announced.

The Council notes that in the last Treasury issue the savings and thrift departments of commercial banks were placed on the same basis as mutual savings banks in subscribing to new Treasury issues. The Council is gratified by the support given by the Board in the accomplishment of this objective.

7. The Chairman of the Board has indicated that he will be pleased to discuss with the Council any of the legislative items listed in his letter of August 6th to the Presidents of the Federal Reserve banks.

There are two of the legislative items regarding which the Council desires to convey its opinion as follows:

<u>S. 408</u>

(a) In its memorandum to the Board of Governors relative to the agenda for the joint meeting of the Board and the Council on March 11, 1947, the Council stated that a minority of the Council was opposed to Bill S. 408, even with the amendments the Council proposed. In the letter of the President of the Council accompanying the resolution on Bill S. 408, it was further stated: "The Council's support of Bill S. 408, with the amendments suggested, is given in the belief that some safety valve is desirable for emergency credit situations, and with the recommendation that the lending and guarantee powers of certain other government agencies, including the R. F. C., should be greatly curtailed, and in many instances should be terminated."

S. 829

(b) The Council desires to reaffirm its position on the Bank Holding Company bill and hopes the bill may be passed with only such minor modifications as will assure its passage.

The Council reconvened in the Board Room of the Federal Reserve Building at 2:00 P.M. on September 22, 1947, to hear Dr. Woodlief Thomas, Director of the Division of Research and Statistics of the Federal Reserve System.

All members of the Council were present.

* *

E. E. Brown presents Dr. Woodlief Thomas who speaks on the subject, "Current Economic Situation". An outline of the salient features of Dr. Thomas' remarks follows:

CURRENT ECONOMIC SITUATION

Now undergoing inflation

Results of war.
Cause of inflation is increase in incomes and money supply relative to goods.
Accumulation of liquid assets—large volume, widely distributed, used freely, but are still large and widespread.
Endeavored to avoid by various policies but too weakly—in end decided to let price system operate freely.

Manifestations

Rise in prices.
- Very uneven.
- Farm prices up 180 per cent.
- Industrial products—70 per cent.
- Rent—5 per cent plus.
- Wholesale prices—average 100 per cent.
- Consumer prices—average 60 per cent.

Price rises, wage increases, high profits are normal in this situation—reflection of demand and supply, (attempt to reach equilibrium).
Tremendous rise in consumption.
- Total now about 160 billion dollars annual rate—more than double prewar.
- Steady increase in nondurable goods throughout war.
  - Most of recent increase probably reflects rising prices rather than greater volume, indicating pressure of demand on limited volume,
- Durable goods small during war;
  - present represents deferred demand as well as increased buying group;
  - restricted by limited output.

Based both on high income and use of accumulated savings.
Construction-private building close to 10 billion dollars annual rate, public about 2-1/2 billion.
Private double prewar in value, but costs are also nearly double.
Increase in residential building--especially private.
Renewed growth in recent months.
Private business construction also large in dollar amount.
Public close to prewar in dollar amounts, below in physical volume.
Heavy capital expenditures by business.
Producers durable equipment 18 billion, over 3 times pre-1941.
Inventory expansion.
Over 5 billion annual rate at end of 1946, after adjustment for revaluation at rising prices.
Down considerably in first half of 1947. Now there is a renewal of inventory expansion.
Exports--peak of 16 billion annual rate.
Imports less than 6 billion.
Balance of 10 billion has been important supporting influence this year.
Any decline in exports may be offset by inventory expansion.

Immediate Prospects

Inflationary forces continue strong.
Continued small harvest abroad maintains pressures on farm products.
Foreign needs for all goods are large--actual demand is matter of dollars available.
Consumer buying shows few signs of being restrained by rising prices.
54 per cent of the "spending units" had an annual income of less than $1,000 in 1935-36. Now 17 per cent get less than $1,000 annually and 23 per cent get between $1,000 and $2,000.
Interim survey of consumer finances shows that plans to buy durable goods and housing about as large as at beginning of year.
Consumers will draw on liquid assets and borrow if necessary to maintain expenditures.
Terminal leave bond payments (probably 1 billion in September) will increase pressures.
End of consumer credit regulation will also be a stimulus.
Pressure for new round of wage increases seems unavoidable.
Will be based on large profits but will probably result in higher prices rather than reduced profits.
An increase of $400 million in currency in circulation is probable in the last half of 1947.
Stock market has been one of the healthiest aspects of the situation.
Bank loans and investments may be up as much as six billion dollars during last half of 1947.

Weaknesses in situation

Distorted price structure.
  Due to many temporary factors--foreign needs, deferred consumer demands, inventory expansion, construction, capital equipment.
  Purchases may be postponed until prices are lower.
  Greatest distortion in agricultural prices and building materials.
More people have exhausted accumulated liquid assets.
Completion or postponement of construction and capital expenditures.
Inventory expansion certain to end sometime.
Foreign demand--can not continue at present rate--already substantial decline in exports. Lack of dollars by foreign nations.
Restoration of production abroad.
Government budget in balance--no longer dominant factor.

Turning point

Appears inevitable eventually because of many temporary elements in situation.
Not possible to predict timing--may not come for some time, but could begin at any time.
If it comes soon, unsatisfied demands and liquid assets will cushion decline.
  Recession no depression.
    No large accumulation of durable goods.
    Credit expansion only small part of picture, but, if continued, liquidation would be depressing influence.
      Further increases in bank loans probable.
  Continued boom and further price rises will reduce effectiveness of existing money; induce speculative commitments.
    Decline will be aggravated.

What to do

Present policies of business, government and individuals should be directed toward diminishing inflationary pressures.
  Tax reduction before prices decline would be height of folly.
  Wage increases, as well as price increases, would contribute to spiral and should be resisted, particularly where wage increases since prewar have already exceeded cost-of-living rise.
  Some allocations and rationing of important scarce goods (foods) might be necessary.
  Restraints should be kept on speculation--margin requirements.
  Credit expansion discouraged in all possible ways.

* * * * * * * * * * * * * * * * *

Burgess. About a year ago the nation decided to operate on the basis of a price economy, but some factors such as interest rates have been held fixed. Burgess asks whether a price economy will operate when certain factors are held relatively rigid. He comments that historically the tightening of credit has been one of the means of curtailing inflation.

Thomas questions whether it is possible actually to prevent credit from tightening.

E. E. Brown states that his bank is having a heavy demand for loans. The high cost of inventory requires larger loans. Consumers' durable goods are now in supply with larger inventories. Increased earnings have not been adequate to take care of the increased cost of inventory and larger receivables. The high cost of labor has also resulted in expenditures for labor saving machinery. Conditions in the stock market have had a tendency to make business concerns come to banks for loans. Commercial loan rates to concerns with a national reputation have not increased. Term loan rates may be up on the average about one-fourth of one per cent. One danger in the situation is that equity capital is not increasing compared to the increased loans of borrowers.

Thomas reports that bank earnings for the first half of 1947 are up compared to the last half of 1946, but are down compared to the first half of 1946.

Brown states that even if rates to the best names increased slightly, the companies would still borrow, if they knew that the loans would be helpful to them in reducing their costs.

The meeting adjourned at 3:30 P.M.

On September 23, 1947, at 10:40 A.M., the Federal Advisory Council held a joint meeting with the Board of Governors of the Federal Reserve System in the Board Room of the Federal Reserve Building.

All members of the Council were present.

The following members of the Board of Governors were present: Chairman Eccles; Governors Szymczak, Draper, Vardaman and Clayton; also, Mr. Carpenter, Secretary of the Board of Governors.

A PROPOSAL THAT THE FEDERAL RESERVE BANKS ADOPT A POLICY OF PURCHASING ALL BILLS OFFERED DIRECTLY TO THEM BY COMMERCIAL BANKS AT A PRICE TO BE DETERMINED DAILY, OR AT MORE OR LESS FREQUENT INTERVALS.

E. E. Brown states that none of the items on the agenda are as significant as the question of inflation, and he hopes that the Board and the Council may have sufficient time at the close of this session to discuss ways of meeting the problems of inflation. Brown then reads the Council's memorandum on this item which was prepared and sent to the Board yesterday and a copy of which is a part of these minutes. He states that the Council believes it is best to continue the present procedure in handling Treasury Bills, at least until the market has had more experience with it. He also states that the Council cannot understand why the Federal Reserve bank of New York requested the member banks of its district not to buy and sell Federal Reserve funds outside of its district. He states that the Board in the past has favored the policy of buying and selling Federal Reserve funds across districts.

Eccles replies that the position of the New York Federal Reserve bank has just come to the attention of the Board. The question of buying and selling Federal Reserve funds is a matter for the Open Market Committee and is not simply the prerogative of a single Federal Reserve bank. Eccles understands that the Federal Reserve Bank of New York has issued no order but has merely tried to discourage its member banks from buying and selling funds outside the district. If the Board considers the matter, it will consider it on a basis that would cover the entire Federal Reserve System. Eccles says that one of the reasons for not adopting the Spencer proposal on Treasury Bills is that the Spencer proposal tends to make credit more easily available. In an inflationary situation, that is one of the things which should not be done. Eccles further states that so far as the purchase and sale of Federal Reserve funds throughout the country is concerned, it means that every dollar of excess funds in the whole System may be used, and this is not desirable in any inflationary situation. If the Spencer proposal is undesirable, then it is desirable to discourage the lending of every excess dollar available in the country. There is nothing in the law that makes it possible for a Federal Reserve bank to prohibit the purchase and sale of Federal Reserve funds between districts. This is a System matter. There is nothing in the law to permit such restrictions, but the Board could try to discourage the movement of funds between districts. However, Eccles has found that the banks do not pay much attention to mere suggestions. There is nothing to prevent the banks from engaging in the interdistrict purchase and sale of Federal Reserve funds; thus, the banks will loan up to the last ditch and rely on getting funds from others.

Fleming. There is very little of this activity, except perhaps between points like New York and Chicago where there may be large swings in deposits.

E. E. Brown states that only about 50 banks are concerned. A bank that only had one million dollars available would find that this amount was too small. As a rule, the banks that buy and sell Federal Reserve funds deal in amounts larger than one million. There are special situations where money swings from one bank to another or from one district to another and it is desirable to permit the purchase and sale of Federal Reserve funds to take care of these special situations.

Eccles states that this is a matter of interest to the whole system.

Burgess reports that he has discussed the matter with the Federal Reserve Bank of New York and that the running off of the put and take has brought up this matter. It should be discussed, as Eccles suggests, on a System-wide basis.

Spencer states that his proposal would result in an active bill market.

Szymczak agrees.

Spencer. In connection with the bill proposal, there might be some criticism that the System was again doing what it had just eliminated a short time previously.

Eccles. There is much in favor of the Spencer proposal if it is desired to have bills held widely. Many banks will hesitate to buy bills if they must be handled through a New York broker.

DISCUSSION OF THE RULING UNDER WHICH ALL FEDERAL RESERVE BANKS AND BRANCHES WILL REIMBURSE THEIR MEMBER BANKS FOR POSTAGE OR OTHER TRANSPORTATION COSTS ON ALL CASH ITEMS SENT TO FEDERAL RESERVE BANKS AND BRANCHES OTHER THAN THE BANK WITH WHICH THE MEMBER BANK CARRIES ITS RESERVE ACCOUNT.

E. E. Brown reads the statement which the Council made on this item in its confidential memorandum to the Board of Governors yesterday. He states that a large majority of the Council thinks the subject is not an important one. In Chicago 53 banks were sending their items direct, and 53 banks are still sending their items direct after the ruling has been in operation about seven weeks. Only one bank in the United States has changed to direct sending. Brown comments that the Council believes that on matters of this kind the Board should discuss them with the Council. A joint discussion might be helpful in stopping criticism.

Winton does not believe the subject is important, but he reports that some banks believe this is another step by the Federal Reserve authorities to take over the correspondent bank business.

E. E. Brown shows a map of towns in Texas in which the banks have taken up this matter with their Congressmen.

Winton thinks the Board made a mistake by not discussing it with the Council. It was embarrassing to have bankers come to him and he knew nothing about the subject.

Eccles reports that some of the Federal Reserve banks were already doing it. The idea did not originate with the Board. The presidents of the Federal Reserve banks decided unanimously that it should be done, and they recommended it to the Board. The Board approved it, but the Board had not heard of it up to that time. It did not even occur to the Board to take it up with the Council, as the Board did not think the subject was that important and the Board did not believe it was a subject of a policy nature.

Fleming calls attention to Regulation Q and states that some banks object to the recent ruling because they believe it is now better for banks to send items to the Federal Reserve banks instead of their correspondent banks. However, Fleming does not believe this argument is really important.

Eccles does not think this ruling will result in building up the balances of member banks in the Federal Reserve banks. The Board is not interested in building up member balances.

Odlin. The Council does not believe the matter itself is so important, but some bankers may question the motive back of the ruling.

Winton does not believe the ruling is consistent with the spirit of Regulation Q.

THE NEW PLAN PROPOSED BY THE BOARD AS A BASIS FOR THE DESIGNATION OF RESERVE CITIES. COPIES OF THIS PLAN HAVE BEEN SENT TO EACH MEMBER OF THE COUNCIL BY MERRITT SHERMAN, ASSISTANT SECRETARY OF THE BOARD OF GOVERNORS.

E. E. Brown reads the statement which the Council has prepared in connection with this item and which is contained in the confidential memorandum sent to the Board yesterday. This memorandum is a part of these minutes. Brown states that the Board proposal would reduce required reserves by perhaps $40 million, and with inflation even that sum is important. He sees no need for declassifying a city that wishes to remain a reserve city. He thinks that many cities have not heard of this proposal and have therefore had no chance to consider it.

Fleming reports that a Chattanooga delegation called on him.

Eccles states that the Chattanooga delegation also called on the Board. The Board has considered this whole question historically and in every other way. If the Board ever got into a law suit, it would have no defense. The Board has no formula and no plan. When the Federal Reserve Act was passed, there already were cities designated as reserve cities, and after that the matter of designating was left to the Board. Every time the matter of setting up a definite formula comes up there are objections. Eccles thinks there is very little justification for different reserves in different cities.

Winton asks why the Board would object if some city wishes to continue as a reserve city.

Eccles states that it is not a question of designating a bank, but that a city is designated. One or more banks in the city may object. He thinks the Board should have power to designate a bank, and that would mean a change in the law.

Odlin asks whether Spokane would be continued as a reserve city, on the basis that it has a Federal Reserve agency. He reports that Spokane feels that it would lose substantially if it lost its classification.

Eccles asks, "What good does a reserve do if it cannot be used?"

Fleming believes that if the Board designates some banks in a city, the Board might be making itself a great deal of trouble.

Eccles thinks the matter should be aired in Congress.

Fleming believes that the deposit balances of national concerns may be fully as volatile and perhaps even more volatile than interbank deposits.

Burgess hopes the matter is not brought before Congress in the next five years, as very little light will probably be shed on it. He thinks the Board has ample authority.

Eccles states that the Board runs into problems because it must designate cities and not banks. The only justification for a difference in reserves is the character of the deposits.

Odlin mentions the situation of a certain bank that did not have correspondent bank balances in large volume. It would not have been designated a reserve city bank under the plan of designating banks and not cities. If two other large competitors had been designated reserve city banks and this particular bank had not been so designated, the latter bank could hardly have built up its correspondent bank balances against the competition of the two other banks.

Eccles. If we use the plan proposed and place it on an average basis, it may eliminate Chattanooga.

E. E. Brown. The Council requests that the records state that the Council objects to the formula and sees no need for action now.

THE POSSIBLE REDUCTION OF RESERVE REQUIREMENTS IN THE NEAR FUTURE FROM THE PRESENT 20-20-14 LEVEL.

E. E. Brown states that this item on the agenda did not originate in the Council, but was suggested by a banker in the district of one of the Council members. The Council is unanimously opposed to the suggestion.

Eccles asks whether the Council would like to see the reserve requirements of central reserve city banks increased. He states that with large gold imports this question might become important. He asks Brown and Burgess to give their opinions.

E. E. Brown states that he has no objection.

Burgess thinks that the time has not come yet for such action.

Eccles reports that the Board agrees with the Council in its conclusions on this item.

THE QUESTION OF OFFICIAL PERSONNEL AND SALARIES IN THE VARIOUS FEDERAL RESERVE BANKS AS IT AFFECTS THE CALIBER OF MEN IN THE VARIOUS OFFICES AND THE PROBLEM OF KEEPING A HIGH QUALITY OF PERSONNEL IN THE BANKS.

E. E. Brown reports the Council is greatly concerned as to the maintenance of the quality of management of the Federal Reserve banks. There seem to the Council signs of deterioration due to the loss of able men in top positions and difficulty in their replacement. The causes appear to lie partly in low compensation, not well adjusted to recent changes in cost of living and pay in comparable positions, and partly in the feeling by officers of the Federal Reserve banks that they do not have adequate responsibility and authority. The Council believes this is a situation requiring the cooperative action of the Federal Reserve Board and the Boards of the several Federal Reserve banks.

Eccles replies that this matter has been up for discussion repeatedly. In various communications with the Federal Reserve banks the Board has pointed out why salaries could not be increased in the top positions. In the $10,000 to $15,000 salary brackets there have been large salary increases, but that is not true above $15,000. Above $15,000 there is more reason now for not increasing salaries, as these salaries are a direct cost of government. $25,000 is the minimum the presidents of the Federal Reserve banks receive, and it has been the minimum for four or five years. The vice-presidents of the Federal Reserve banks receive from $15,000 to $18,000, and two or three of them receive more. There is also a liberal retirement system.

E. E. Brown comments that these men do not get a pension comparable to that in private industry.

McCoy wishes to know what is the top pension.

Szymczak replies that it is about $9,000.

Eccles states that the System has no trouble getting competent help.

E. E. Brown replies that the members of the Council do not agree.

Eccles states that the officers of the Federal Reserve banks do not have the problems that confront officers in private banks where ownership changes and banks fail. Only a very, very few top men in the Federal Reserve banks have ever been fired. These men have great security. They have no competition and no worry about the earnings or expenses of the banks. The System is something like a big post-office, and much of it is a mechanical operation. All policy is fixed by the Board and the Open Market Committee.

Szymczak comments that the more risk a man takes, the more salary he is entitled to receive. He also states that the higher the income, the closer you come to turning the System over to the Treasury.

Eccles believes that the lower groups are the ones really being hurt. The upper groups may have to cut their living costs a little and use their automobiles less frequently for trips. The Board will be glad to increase salaries in the upper brackets when the Government authorizes increases in top salaries.

Szymczak thinks the retirement program is more important than salary to older men.

E. E. Brown believes the System is not getting or holding the best men. He mentions Daniel Bell as an illustration.

Eccles replies that the Board is bringing men up through the System and the Board has found these are the best men.

Odlin believes it is not so much a matter of salary as it is a lack of authority to act.

Eccles replies that this is the fault of Congress. The authority is in the Board and in the Open Market Committee. If there is to be any change, it is up to Congress. Over one-half of the business of the Federal Reserve System is the fiscal business of the Government. Eccles believes the Board is doing a better job than would be done if the System were under the control of the Comptroller General on the matter of expenses. He states that the Board's wage classification plan is better than the Civil Service plan. He says that as long as the Board has the authority under the statute, it must discharge its functions. If the Council does not agree, then it is a matter of changing the law.

E. E. Brown mentions the red tape that the Chicago Federal Reserve bank had to go through in order to have salaries raised in Detroit.

Fleming thinks the pensions are still low.

Odlin believes the tone of the control and management - not necessarily the law-needs to be changed. Some branch banking systems delegate authority successfully.

Eccles replies that a private banking system has more freedom than a government institution. The Federal Reserve banks can do what they wish to in handling salaries up to $10,000. He also says that any credit a Federal Reserve bank makes is never submitted to the Board. The Federal Reserve bank submits a budget each year, but the expenses within the budget are subject to the Control of the Federal Reserve bank.

Penick has heretofore assumed that any change in salaries had to be passed upon the Board.

Eccles replies that this is only true of the salaries of officers of the Federal Reserve banks.

E. E. Brown believes the Federal Reserve banks are getting men of inferior qualifications, especially compared with those in the Federal Reserve banks about 15 years ago.

THE QUESTION OF PLACING COMMERCIAL BANKS ON A MORE EQUAL BASIS WITH THE MUTUAL SAVINGS BANKS IN SUBSCRIBING TO NEW TREASURY ISSUES.

E. E. Brown states that this question was placed on the agenda before the terms of the September financing were announced. The Council notes that in the last Treasury issue the savings and thrift departments of commercial banks were placed on the same basis as mutual savings banks in subscribing to new Treasury issues. The Council is gratified by the support given by the Board in the accomplishment of this objective.

Eccles replies that actually the Board opposed this proposal. The Board wishes to get the government debt out of the banks, and it is inconsistent if the Board approves the funding of the debt through the banks.

Atwood states the objection noted in the proposal is against giving savings and thrift departments of banks less favorable consideration than is given to the mutual savings banks.

Eccles comments that the question is actually academic, as savings are not increasing and subscriptions are based on increasing savings. He reports that the Treasury wished to take care of the little banks, which is the reason for the change in the September financing.

Burgess states that the subscriptions are more nearly roll-overs, and it is not a matter of placing additional debt in the banks.

THE CHAIRMAN OF THE BOARD HAS INDICATED THAT HE WILL BE PLEASED TO DISCUSS WITH THE COUNCIL ANY OF THE LEGISLATIVE ITEMS LISTED IN HIS LETTER OF AUGUST 6TH TO THE PRESIDENTS OF THE FEDERAL RESERVE BANKS.

E. E. Brown advises that there are two of the legislative items regarding which the Council desires to convey its opinion. These items are bill S. 408 and bill S. 829. He states that it was probably an oversight in the hearings that no attention was called to the fact that a minority of the Council was against bill S. 408. The Council is disappointed that the powers of the R. F. C. were not greatly curtailed. In its confidential memorandum to the Board on March 11, 1947, the Council stated that a minority of the Council was opposed to bill S. 408, even with the amendments the Council proposed. In the letter of the President of the Council accompanying the resolution on bill S. 408, it was further stated: "The Council's support of Bill S. 408, with the amendments suggested, is given in the belief that some safety valve is desirable for emergency credit situations, and with the recommendation that the lending and guarantee powers of certain other government agencies, including the R. F. C., should be greatly curtailed, and in many instances should be terminated." Brown asks what Taft's position is on the bill.

Eccles replies that the program of Congress was too crowded to consider the bill. Senator Downey had some amendments which he proposed to discuss at length, and this threat made the leaders of the Senate decide not to bring the bill up before the Senate. Eccles reports that Congress did delete many of the powers of the R. F. C.

E. E. Brown replies that the Congress did not delete the power of the R. F. C. to make loans.

Fleming states that he is against having both the Federal Reserve System and the R. F. C. with power to make loans.

Eccles hopes that the Council will consider this matter again at its meeting in November. He wishes that the Council would say that it still favors bill S. 408 if the R. F. C. powers are eliminated or greatly curtailed.

E. E. Brown reports that the Council desires to reaffirm its position on the bank holding company bill and hopes the bill may be passed with only such minor modifications as will assure its passage.

The meeting adjourned at 1:25 P.M.

* * * * *

There was an informal discussion at luncheon with the Chairman of the Board on some of the problems of inflation.

* * * * *

It was agreed that the next meeting of the Federal Advisory Council would be on November 16, 17, and 18 at Washington, D. C.